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CURRENT INTELLIGENCE WEEKLY SUMMARY



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PART I

OF IMMEDIATE INTEREST

KHRUSHCHEV EXPLOITS SOVIET TECHNOLOGICAL GAINS

Soviet party chief Khrushchev, in recent interviews and public statements, has attempted to translate Soviet technological advances into political gains. By emphasizing the USSR's enhanced military potential, asserting its devotion to peace, and bidding for new East-West talks, Khrushchev is trying to exert pressure on the non-Communist world--particularly on Western Europe prior to the forthcoming NATO conference in Paris. Moscow may be planning to send formal notes to the United States and other NATO powers prior to the Paris meeting proposing a broadly representative conference.

Intensified exploitation of Soviet technological advances began with the announcement on 26 August of successful testing of an ICBM, when Air Marshal Vershinin in a Pravda interview disparaged the value of aircraft carriers, and foreign bases and declared, "The Soviet Union can defeat any aggressor." Soviet commentaries on the launching of the first earth satellite on 4 October dwelled on the superiority of science under the socialist system. Moscow quoted Western reactions in drawing attention to the military implications.

Since the launching, Khrushchev, as chief Soviet foreign policy spokesman, has developed the theme in interviews and statements that the balance of power has shifted away from the West in favor of the Communist bloc and the "neutrals" in the so-called peace camp. He has emphasized that Soviet

missiles could now be used to "dispose of bases in Europe, Asia, and Africa"--a threat directed at countries where American bases are located. In an interview on 14 November, he specifically cited the European members of NATO as Soviet targets in a future war and asserted that sentiment in those countries would turn against NATO and the American bases.

Such remarks--which will probably be reiterated by Soviet spokesmen as the NATO conference draws nearer--combined with Moscow's call for a high-level East-West meeting are calculated to bring pressure on NATO governments to postpone major decisions on measures to strengthen the Atlantic alliance until Soviet intentions can be explored in a new round of talks.

In his 6 November speech at the 40th anniversary celebration, Khrushchev made the first of a series of bids for a new East-West conference. Disparaging the meeting of President Eisenhower and Prime Minister Macmillan as an effort to continue the Western "position of strength" policy, he called for a "high-level meeting of representatives of socialist and capitalist" states to settle outstanding international problems. Khrushchev has since repeated this bid, but has also hinted that Moscow would welcome direct talks with the United States or a big-power conference.

According to the TASS version of his 14 November interview, Khrushchev admitted

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it was doubtful such a meeting could be held, and his actual statement to his interlocutor on this subject was even more pessimistic. Khrushchev asserted that a conference of this type would be pointless unless the parties concerned mean to achieve agreement. The basis for such agreement, in his views, would have to be recognition of "the actual balance of forces," noninterference in other countries' internal affairs, and acceptance

of the Bandung principles of peaceful coexistence.

In commenting on the effects of the USSR's campaign to exploit its scientific achievements, Ambassador Thompson in Moscow points to the possibility that Soviet leaders now believe that prospects have improved for forcing the West to discuss disarmament on Soviet terms and to acknowledge the Soviet position in the Middle East.

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MIDDLE EAST DEVELOPMENTS

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Premier Bulganin's announcement on 19 November that the USSR has agreed to "aid Egypt in building up its national economy" suggests that Moscow has offered Cairo extensive economic aid which, if accepted, would fill a major gap in the Soviet-Egyptian relationship. Although the USSR over the last two years has considered Egypt the principal lever of Soviet policy in the Middle East, it has not previously offered any large-scale economic assistance. According to Egyptian press reports, the USSR has offered Egypt a credit equivalent to \$175,000,000. The timing of the offer indicates that it is designed to exploit Nasir's concern over internal problems, and to forestall reestablishment of Egyptian commercial ties with the West.

Syria

Syrian propaganda against the alleged menace of Turkish military activities has become desultory, although the Syrians are not yet ready to let the subject die. The Turks are withdrawing about half of the 50,000 men they had deployed in the vicinity of the Syrian border during the past three months. Turkey in December will seek NATO authorization for an additional armored brigade, including M-48 tanks, to augment forces remaining near the border.

An Egyptian parliamentary delegation's visit to Damascus has provided the occasion for another emotional outburst in favor of Egyptian-Syrian union. However, there is still no sign that Nasir wishes to add Syria's internal problems to his own, or that the present military

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cooperation between the two countries will in fact be expanded into any real economic or political "union."

Syria's civilian politicians are having trouble maintaining even the usual semblance of unity among themselves. There are signs that the radical nationalist leadership of the Baath is having new twinges of discomfort in its association with the Communists.

Baath chief Hawrani discovered last week that while his party had been concentrating on preparations for the 1958 parliamentary elections, the Communists had mounted a well-organized campaign for more imminent municipal balloting. The Communists demanded that within the "national front" coalition they be permitted to run as many candidates as any other party. Rather than accede, Hawrani and more moderate elements succeeded in having the municipal elections put off until the non-Communists are better organized.

To balance the score, however, Hawrani's archrival, Defense Minister Azm, assumed two additional posts. Now acting finance minister in lieu of Prime Minister Asali and head of the Economic Development Board, Azm holds in his hands all the lines of contact with the Soviet Union except the formal diplomatic links. In his defense role, he oversees the arms deals with the bloc; on the development board he presumably will have the major say as to what projects Soviet funds and technicians participate in; and as finance minister he will have the job of raising the money to pay off

the USSR. Azm, a tool of the French when they were the dominant influence in Syria, has clearly cast his lot with the Russians, probably in the belief that this will lead him to the presidency of the republic.

The Egyptian-Jordanian propaganda war quieted somewhat for a day or two last week end. The campaign had resumed by mid-week, however, concentrating on personal aspersions and general assaults on King Hussayn's policies rather than on fabricated news of "riots" in Jordan. Cairo's Voice of the Arabs broadcasts now seem directed particularly at the Jordanian Bedouin tribes who form the core of Hussayn's military support.

The impact of the Egyptian campaign appears to have been minimal; no disorders occurred in Jordan as a result, and the security situation there seems relatively good for the moment. The problem of parliamentary by-elections, which had been scheduled for 23 and 30 November, has been solved by "persuading" all candidates save one for each of five of the six seats to withdraw. Similar government success is anticipated for the sixth seat.

New trouble can come at any time for King Hussayn's government, however, since there is no sign that Egypt and Syria have relented in their hostile attitude toward his pro-Western orientation. An Egyptian diplomat in Damascus indicated clearly last week that his government regards Jordan's international position as a constant threat to the success of the Egyptian policy.

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The Jordanians also feel menaced again by new Israeli activity in the Jerusalem area. On 20 November, the Israelis included a quantity of gasoline in the material which they send once every two weeks by truck convoy to Mount Scopus, the Israeli-held enclave in Jordanian territory. The Jordanians have insisted that this material is "contraband," but the Israelis have refused to remove it from the convoy. The Jordanians' attitude stems from what they believe to be the need for a tough public posture toward Israel to counteract Egyptian propaganda which alleges Hussayn is secretly negotiating with Tel Aviv.

Oman - Yemen

The British and the Sultan of Muscat continue to contend unsuccessfully with the surviving Omani rebels. The latest attempt by the Sultan's forces to capture the village headquarters of the rebels has failed,

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Regarding the other side of the Arabian peninsula, Yemeni-British talks in London have broken off, and Crown Prince Badr has gone on a visit to Paris. Yemeni's radio attacks on the British have been resumed and more rifles have been distributed to potential dissidents in the Aden frontier area.

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PART II

NOTES AND COMMENTS

SOVIET DISARMAMENT MOVES IN THE UN GENERAL ASSEMBLY

The abrupt rejection on 19 November by Soviet Deputy Foreign Minister Kuznetsov of the compromise measure to enlarge the UN disarmament machinery has stalemated efforts by neutralist countries to achieve a solution acceptable to both the West and the Communist bloc. Moscow apparently believes it can exploit concern over its threat not to participate in future disarmament talks to extract further concessions from the West.

The Soviet delegation had apparently promised at least India and Yugoslavia--the principal mediators of a compromise--that their proposal to add 14 new members to the 12-nation Disarmament Commission would be acceptable. Just prior to the voting, Soviet United Nations delegate Kuznetsov warned that unless the General Assembly adopted a hastily contrived Albanian amendment to raise the commission to 32 members--16 Western and 16 Communist or neutralist states--the USSR would boycott further UN disarmament negotiations. This about-face placed India in "an awkward position,"

and caused Yugoslavia to withdraw its participation in the compromise enlargement plan in "disgust" at the Soviet tactics.

The USSR's confidence in the strength of its position is indicated by its willingness to risk alienation of neutralist powers by these methods. Chief Soviet delegate Sobolev, when asked why the USSR adopted tactics which turned a US defeat into victory, replied: "Where will the American victory be when we do not attend meetings?"

Soviet party chief Khrushchev explained the Soviet attitude toward further disarmament talks in a 14 November interview with an American journalist. He repeated the Soviet assertion that the United States does not want a disarmament agreement and has used the "behind-the-scenes" negotiations in the present subcommittee as a screen for continuing the arms race. He pointed out that the USSR, since it has been in opposition to the four NATO members of the Disarmament Subcommittee, opposes further closed negotiations in that body. Khrushchev repeated Soviet demands for a new disarmament body composed of all 82 UN member nations and stated that its establishment would not prevent the use of other "forms and methods" of talks such as direct US-Soviet negotiations.

There has been speculation among non-Western delegations that the Soviet Union is bluffing on its threat not to participate and that creation of a modestly enlarged commission would remove any basis for Soviet unwillingness to engage in further arms talks. Adoption on 19 November by an overwhelming majority of the General Assembly of the compromise enlargement proposal reflected this expectation.

Although the Indian proposal for immediate cessation of nuclear tests was rejected by the General Assembly on 19 November, the inclusion of many pro-Western nations among those supporting or abstaining suggests that the nuclear test issue will gain more adherents among UN members in the future.

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GAILLARD WOONG RIGHTISTS WITH TUNISIAN ISSUE

The diversion created by Premier Gaillard's strong stand on the delivery of arms to Tunisia by the United States and Britain helped his broad coalition survive its first confidence test on economic and financial policy. He probably hopes that this firm attitude in relation to his Western allies will help to ensure passage of the basic statute for Algeria.

Mounting rightist reluctance to accept the new taxes and pricing restrictions proposed by Gaillard in his request to the assembly for sweeping economic powers was tempered by his position toward the United States and Britain on the arms issue. His nationalistic stand, along with some concessions to the Independents on tax policy, was largely responsible for the relatively small outright opposition recorded in the 256-182 confidence vote on 19 November. The respite thus gained from political difficulties over economic policy may be short-lived, however, as the threat of new gas and electricity strikes continues the pressure for wage hikes and the Socialists' apprehension over the effect on their position of Gaillard's virtual wage freeze increases.

A slightly amended version of the Algerian statute which

toppled Bourges-Maunoury's government on 30 September has been placed before the assembly in the hope of obtaining passage before the UN General Assembly debate. The modifications tend further to safeguard the position of the French minority in Algeria and are expected to favor the statute's chances. There is some concern, however, that rightist deputies will take the opportunity to register their bitterness over Tunisia and force the government to elaborate the somewhat innocuous provisions of the bill itself with stronger supplementary policy statements. An Independent spokesman has indicated that before committing itself on the basic statute, his group will be particularly anxious to have the government make clear to its allies France's pre-eminent position in North Africa.

Gaillard, himself, probably hopes his position on the arms question will limit the criticism and block any pressure for extensive changes. At the same time, he is banking on the interest of Washington and London in healing the rift in the Atlantic alliance over Tunisia, to assure their support in the UN. Foreign Minister Pineau has already played up the possibility of a disastrous reaction in France if Paris is not backed by its allies in the General Assembly.

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MOROCCAN KING TO VISIT THE UNITED STATES

When King Mohamed V of Morocco visits the United States beginning on 25 November, his primary objective will be to obtain a commitment of military and economic aid in exchange for an understanding on the terms for continuing American use of the air base complex--five air bases and auxiliary radar installations--in Morocco.

These bases were built by the United States under a 1950 bilateral agreement with France which Morocco contends is illegal because the Moroccans were not consulted. The King may also plan to set forth a moderate Moroccan position supporting eventual Algerian independence during his address to the United Nations in December.

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A widely popular absolute ruler, the King is the only force uniting the disparate elements of Moroccan society. By backing the moderate wing of the Istiqlal party--the dominant political group in the country--he has managed to hold down the demands of the more extreme factions. His fear that some Istiqlal leaders might seek to establish a Moroccan republic may be a principal reason he has taken few steps in the two years since his return from exile toward establishing a constitutional monarchy.

Air base negotiations which began in May have progressed slowly largely because of inexperience on the part of the Moroccan negotiators and their inability or unwillingness to define their objectives. In order that something tangible might emerge from the King's trip, Rabat has proposed that a joint declaration be issued which, among other things, would appoint a joint commission to work out a provisional base agreement.

Anticipating that France and Spain will want to model their military agreements with Morocco on the American formula, the Moroccans prefer a short-term--possibly a three-year--agreement. American forces in Morocco are popularly associated with French and Spanish troops as "occupying forces," and Rabat does not wish to incur

public indignation at this time by agreeing to a long-term arrangement.

The Moroccans probably will ask for American military and expanded economic aid, both to reduce Moroccan dependence on France and because France is increasingly reluctant to extend such aid. They undoubtedly



MOHAMED V

are encouraged by the success of Tunisian President Bourguiba in obtaining arms from the United States and Britain.

The King recently conferred with Algerian rebel leaders and with Bourguiba, who visited Rabat on 20 November. Although he has endorsed independence for Algeria, he probably looks with favor on Bourguiba's efforts to induce the rebels to be more conciliatory toward France as a means to achieve a negotiated Algerian settlement.

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IRANIAN SHAH SEEKS ECONOMIC AID TO STRENGTHEN REGIME

The Shah of Iran is stepping up his campaign to obtain additional economic and military aid from the United States. He asserts that his firm pro-Western orientation and Baghdad pact membership are not paying off in aid commensurate to Iran's needs and strategic location.

The USSR is continuing to press for expanded economic relations with Iran so as to loosen Tehran's economic and political ties with the West. The Iranian government, which has rejected various informal offers of large-scale Soviet aid, has been slow to negotiate and implement agreements

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concluded in several restricted economic fields, but the Shah has indicated to American officials that in the absence of increased American assistance, the attractive Soviet offers cannot be rejected forever.

This urgent attitude reflects the Shah's concern over the preservation of his regime in the face of growing political dissatisfaction caused primarily by the slowness of promised economic improvements which directly benefit the people. Although aware that dissatisfaction is focusing increasingly on his one-man rule, he feels he must maintain his hold or uncontrollable Mossadeq-like forces will again be released and lead Iran to foreign occupation or control. Fear of foreign occupation and internal opposition accounts for his persistent requests for more military aid.

Recently, the Shah has made many moves designed to bolster his regime. During the last two months, his security organization arrested over 70 Nationalists, a fraction of a group which advocates the establishment of a republic. These arrests may backfire by driving the Nationalists to accept control by extremists. Earlier this year, the Shah

established a home-guard organization which he hopes will attract the youth of the country and arouse a nationalistic spirit in his support.

To provide an outlet for political energies which the regime can control, the Shah has sponsored the creation of both the opposition Mardom party and the progovernment Social Democratic party. He has moved aggressively to implement the oil law passed in July by making an agreement with the Italians for the joint development of three locations outside the Consortium area. Even though it faces serious implementation problems, an agreement in principle has also been reached to construct a pipeline from Qum to Iskenderun in Turkey, and a new concession area on the Persian Gulf was opened in November to foreign bidders.

In another activity to enhance his domestic popularity, the Shah is trying to expand Iranian influence in the Persian Gulf. Without power to enforce his statement, he has announced that British-protected Bahrein is to be a province of Iran with representation in the Majlis. He is holding on to the mid-gulf island of Farsi, claimed by Kuwait, and has tried to woo the Trucial sheikdoms.

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COALITION GOVERNMENT FORMED IN LAOS

A coalition government headed by Prime Minister Souvanna Phouma and including two Pathet Lao representatives was unanimously approved by a special session of the Laotian National Assembly on 19 November. In a ceremony one day prior to the investiture, Pathet chief Souphannouvong symbolically turned over the administra-

tion of the two disputed provinces to the King. These were the first acts in the implementation of a unification settlement that has been under negotiation for nearly three years. The settlement, in effect, opens all Laos to widespread subversive activities and probably will be followed by an expansion of diplomatic contacts between

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Laos and the Communist bloc.
(See Part III, page 1 for ramifications in Southeast Asia.)

Prince Souphannouvong, Souvanna's half-brother, is minister of planning, reconstruction, and town planning, and second-ranking Pathet leader Phoumi Vongvichit will be minister of public instruction and arts. Their influence will extend beyond the scope of their substantive posts, and they will be in a position to build resistance to any moves considered disadvantageous to the Pathets during the implementation of the agreement.

The 16-man cabinet is based on an alliance of Laos' leading moderate parties--the Nationalists and Independents. Souvanna has emerged as the ranking Laotian political figure partly as a result of a serious stroke suffered by his closest rival, Interior Minister Katay, but also because he will ride the crest of popular acclaim for the reunification of Laos. He has said he will move aggressively to extend government control over the Pathets, but his past performance suggests he will not take any action that would jeopardize the settlement.

Souvanna, moreover, has reiterated to the National Assembly his intention to pursue a neutralist policy and to cultivate friendly relations with all of Laos' neighbors, which

include North Vietnam and Communist China. While other members of the Laotian elite have expressed a skeptical view of Pathet intentions, there is the danger they will be lulled into passivity by the general good feeling that will accompany unification.

The Pathets have only formally surrendered authority in the two provinces. The actual imposition of government control and integration of 1,500 Pathets into the army may take two to three months. The Pathets will doubtless seize on loopholes in the accords in an effort to maintain paramount influence in the provinces and to integrate their most effective cadres into the army and the civil administration.

The Pathets, moreover, can be expected to launch a vigorous political campaign immediately to ensure a good showing in the supplementary elections to be held in March to expand the National Assembly from 39 to 59 seats.

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SARIT MAY BE PREPARING TO SUPPRESS OPPOSITION ELEMENTS IN THAILAND

The recent four-day semi-alert of the Thai armed forces points to the continuing uneasiness of the ruling military clique of field Marshal Sarit Thanarat. The alert is one of

several indications that Sarit may be laying the groundwork for a police roundup of both pro-Communist elements and suspected adherents of ex-Premier Phibun and former Police Director

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General Phao. By claiming that such action is necessary to thwart a "plot" to overthrow the government, Sarit might hope to quell two potential sources of opposition, as well as justify the continued enforcement of martial law and possibly the postponement of next month's parliamentary elections.

Sarit, provisional Premier Pote, and the King have all indicated growing concern over the activities of pro-Communist elements in Thailand. The Bangkok press is full of statements from leaders of the military group about accelerated Communist activity. The ruling clique is also claiming publicly that it has indications of plotting by Phibun-Phao elements. The atmosphere in Bangkok is strongly reminiscent of the period preceding a police crackdown on the Communists in November 1952. That action put an effective damper on overt Communist activities until Phibun relaxed the reins in

pursuit of his "democratization" program in 1955.

Since that time, while still lacking a mass base, the Communists have been increasingly successful in stimulating anti-Western, pro-Peiping, and proneutralist propaganda by subsidizing the press and leftist politicians who have few other sources of funds. There are also signs that the Communists have increased their influence among students and laborers.

While leftists did not fare well in the national elections last February, Sarit may not be willing to take any chances, in view of the growing stridency of pro-Communist propaganda. The parliamentary elections in December will determine what civilian elements the military group will have to work with during the coming years. Sarit is aware that substantial leftist gains would be a serious embarrassment domestically and would hamper his efforts to maintain good relations with the United States

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THE COMMUNIST POSITION IN INDONESIA

In the two years since the 1955 parliamentary elections, the Communist party has increased its electoral base in Java from approximately 5,500,000 to 6,500,000 voters, and has replaced the National party both as the major party in Indonesia's most densely populated island and as President Sukarno's strongest political asset. Its present estimated membership of 700,000 makes it by far the largest Communist party in free Asia.

The Communists also hold seats in the National Advisory Council, which strongly influences government policies. They

have direct influence in the cabinet through one minister and probable influence through at least three others. Communist Secretary General D. N. Aidit will be included in the national development conference scheduled to open on 25 November. The Communists have dominated Indonesia's large labor movement, and they are capable of paralyzing Java and North Sumatra through strikes and slowdowns. Recently the Communists have achieved some penetration of the army, which has heretofore generally been regarded as the chief bulwark against a Communist takeover in Indonesia.

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President Sukarno's growing reliance on the Communists and the increasing identity of his views with their avowed aims has been perhaps the greatest boon to the party. Another advantage of the Communists is the continuing disunity among non-Communist parties. Former Vice President Hatta has not taken a firm public stand against either the Communists or Sukarno despite some urging by non-Communist leaders.

With a view to winning the 1960 national elections, the Indonesian Communist party's strategy appears to be continued reliance on the peaceful methods that have thus far been so successful. A more immediate objective may be the replacement of the present Djuanda

cabinet with a cabinet of "national unity" that has been advocated by Sukarno, in which they would be represented.

Aidit stated on 8 November that the Communists believe in parliamentary methods but would resort to "other methods" if the party should be banned. The possibility that the Communists will move faster and use more "revolutionary" tactics to gain power if the opportunity presents itself, however, should not be overlooked.

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KOREAN FISHING BOAT INCIDENTS

The North Korean navy on 9 November seized eight South Korean fishing boats and 48 crewmen on the high seas south of the area of the demarcation line, and as a result Seoul is threatening to send warships into the east coast fishing areas. The increase in tensions could touch off naval clashes.

North Korea's seizure of the eight fishing boats had all the characteristics of a carefully planned raid. The three North Korean twin-motored patrol boats involved flew no flag and moved at high speed with the apparent idea of preventing identification. The boats were seized about seven miles off the east coast and 1,000 yards south of the demilitarized zone. This is the first time the North Koreans have entered southern waters to carry out a large-scale raid against fishermen. A 12-ton

southern vessel captured by an armed North Korean patrol boat last May was operating in northern waters, 60 miles northwest of Inchon.

In addition to blocking future incursions of South Korean fishing vessels into northern waters, Pyongyang apparently hopes to secure intelligence information or potential espionage agents for use against the South.

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Since last spring, the South Korean navy has strengthened its patrols near the armistice line. Seoul announced on 19 November that if Pyongyang refused to return the

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fishermen, South Korea would send every available warship into east coast fishing areas to meet further seizures "with all the force at our command." The possibility of a clash is heightened by the recent declaration of the South Korean chief of naval operations that the permissible area of operations for South Korean fishing boats is to be extended northward. The fishing line off the east coast, which was set by the South Korean navy nine miles south of the armistice line, is to be moved northward approximately to the southern

boundary of the demilitarized zone.

Actually, the old line was never a strong deterrent to South Korean fishermen, whose exclusion from the better fishing grounds in the north cost them large sums of money. They continued to go north of it and enter waters inside the Communist 12-mile limit in order to obtain better catches. The establishment of the new line probably will act as an additional encouragement to South Korean fishermen to venture into northern waters.

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COMMUNIST CHINA DECREES LIMITED ECONOMIC REORGANIZATION

The State Council in Peiping has issued new regulations designed to achieve a partial decentralization of industry, commerce, and finance, and to encourage excess urban labor to settle in rural areas. Peiping has long paid lip service to the need for stimulating local initiative by permitting local officials more authority, but has found it difficult to reconcile this need with the demands of a planned economy for strong centralized control.

Peiping says the new decentralization regulations were drafted with "extreme circumspection" and took a year to complete.

According to the regulations, local authorities in provinces, autonomous regions, and special municipalities will assume a measure of control over a limited range of industrial enterprises--mostly in light industry--as well as certain financial and commercial activities. The chief heavy

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industry installations, including defense industries, remain firmly under the direct control of the central authorities. The regional authorities will be given increased responsibility in the allocation of materials to enterprises in their area and in managing the personnel of such establishments. They are also encouraged to draw up their own budgets, but must cover spending from their own sources of revenue.

Present local revenues are to be supplemented, when required, and with the approval of central authorities, by a 20-percent share in the profits of specified industrial and commercial enterprises. The central authorities retain control over investment in all key construction projects.

Top managerial personnel in industrial enterprises will be accorded a greater degree of responsibility in the operation of their own plants. They are to be allowed more "flexibility" to invest in construction projects in their plants, provided, always, that the essential targets of the state are first fulfilled. The central authorities say that plant officials can now draw up their own quarterly and monthly plans. Annual and five-year plans will still be drawn up by the central government, but these will not be as rigidly drafted as in the past.

These regulations appear similar to the economic reor-

ganization now taking place in the Eastern European satellites (see Part III), but do not in their present form appear as far-reaching as the Soviet model. For example, Peiping is not in this instance abolishing any central industrial ministries, although it may be tending in this direction. A commentator in Peiping last May said that, while there were similarities and differences between China and the USSR, an "attentive study" of the Soviet model was of "important practical significance" to China.

The regulations on manpower and wages are intended to make urban employment less attractive and to stimulate the movement of excess urban population to the rural areas, where it costs only about half as much in terms of money to support an individual. The movement of city dwellers to the countryside has in fact been under way for several months. High- and medium-level party and government officials, students, teachers, workers, and all personnel made surplus through the simplification of organizations in the current rectification movement have been urged to go to the countryside to engage in "production." The number involved in this movement is expected to run into the millions. The arrival of large numbers of city dwellers in the provinces cannot be viewed with much enthusiasm, however, by the food-short peasants. (Prepared by ORR)

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CHANGE OF GOVERNMENT IN NEPAL

The resignation of Nepal's Prime Minister K. I. Singh and the promulgation of direct rule by King Mahendra on 14 November opens a new round in the search for stable democratic govern-

ment in this Himalayan country which has seen six cabinets in the seven years since the overthrow of the Rana autocracy. The weaker leadership which is likely to succeed Singh's

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government may increase the opportunities for Communist China to expand its influence, although India can be expected to exert what pressure it can to protect its special position in Nepal.

Following his entry into office on 26 July, Singh moved swiftly to consolidate his power. The autocratic measures he imposed to curb the opposition parties and secure control of the administration provoked bitter protests in the few urban areas of Nepal, and reportedly aroused growing concern in the palace and in the Indian embassy. In recent weeks Singh had stepped up his demands for changes in administrative personnel and for removal of certain royal appointees in an apparent bid to test his strength with the King. While he and the King had appeared previously to be cooperating, Mahendra probably came to the conclusion that the ambitious prime minister had overstepped his authority and had to be removed.

During his three and a half months in office, Singh's statements and policies indi-

cated a marked pro-Indian orientation, and he showed an intent to limit Nepal's ties with Peiping. The Chinese now may renew the attempts they made under the former government of Tanka Prasad Acharya to expand cultural and economic relations.



MAHENDRA

New Delhi apparently endorsed Singh's leadership, at least until recently, and may even have been instrumental in his coming to power. With Singh out of the picture for the pres-

ent, the Indian government can be expected to throw its support to a new government favorable to Indian interests. As an alternative to another unstable coalition in Katmandu, however, New Delhi might advise continued direct rule by the King, believing it can control more effectively the political situation through influence and economic pressure on Mahendra.

Despite the King's announced intention

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to make "other arrangements" and his apparent reluctance to assume sole leadership of the country, he may find it advisable to prolong royal rule for an indefinite period, perhaps

until elections can be held. Competition for power among Nepal's rival political factions may prevent the formation of the "national" coalition he has previously sought.

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CYPRUS

Leaflets purportedly printed by the Greek Cypriot underground organization EOKA and distributed on 17 November warn that a new anti-British campaign on an "unprecedented" scale will be launched if "the British and Americans torpedo a settlement of the Cyprus dispute" by the United Nations. The Cyprus issue is expected to be debated by the General Assembly in early December.

Recent murders, sabotage of government installations, and riots on Cyprus testify to the continued power of EOKA, both to take violent action and to incite the Greek Cypriot population. It is becoming increasingly difficult for the Greek Orthodox Ethnarchy Council of Cyprus to restrain EOKA from starting a new campaign of terrorism.

A declaration by the British Labor party in early October favoring Cypriot self-determination makes acceptance by the Greek government of any solution short of self-determination virtually impossible; but officials in Athens, eager to avoid the inevitable further deterioration in Greek-Turkish relations if EOKA resumes a full-scale campaign of violence, appear willing to discuss other solutions.

According to Greek Foreign Minister Averoff, a minimum acceptable General Assembly reso-

lution must call for continuing negotiations toward a settlement and must instruct the UN Secretary General to ensure that action is taken. If such a resolution were passed, Averoff has indicated that Greece would be willing to attend a tripartite conference on the future of Cyprus.

The replacement of General Sir John Harding by Sir Hugh Foot, a civilian, as governor of Cyprus on 21 October is not expected to alter significantly Britain's policy toward its crown colony. Foot is scheduled to arrive in Nicosia about 1 December. The Cyprus government has reacted to increased EOKA activity with only mild restrictions and has not reimposed the emergency regulations revoked in the period since the truce with EOKA began last March.

The British have conferred with NATO Secretary General Spaak in new attempts to find a solution to the Cyprus problem acceptable to all interested parties.

Turkish Prime Minister Menderes may find it easier to work for a compromise solution on Cyprus now that his party has obtained an election mandate. Although there has been no apparent softening of Turkey's demand for partition, the Menderes regime may adopt a more flexible policy in an attempt to remove this major irritant in relations with Greece.

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BERLIN HARASSMENT LINKED TO EAST GERMAN QUEST FOR RECOGNITION

The East German regime, with Soviet support, has embarked on a program of harassment of West Berlin with the dual objective of establishing the concept of two sovereign, independent German states, and eroding the legal position of the Western powers in the city. The Kremlin, however, probably does not desire a major crisis over Berlin and will restrain the East Germans from taking extreme actions which would affect the Western powers.

In an effort to enhance its appearance of sovereignty the German Democratic Republic (GDR)--East Germany--has been especially persistent in efforts to establish authority over its air space. The East Germans several times recently have reiterated their contention that the 20 September 1955 Soviet grant of "sovereignty" to the GDR terminated the 1945 agreement on Allied use of the Berlin air corridors and gave the GDR complete control of the air over its territory. Supporting East German claims, the Russians have refused to permit American courier flights between Berlin and Warsaw on the grounds that permission for such overflights of East German territory can only be granted by the GDR. In less than a month the Russians have tried twice to obtain Western clearance for East German flights in the Berlin-Frankfurt air corridor used by Western aircraft flying to Berlin.

The GDR regime will probably impose additional customs controls on passengers traveling between East and West Berlin on the elevated trains in an effort to reduce the flow of new currency to the West and curtail the serious loss of manpower. It is also

considering the possibility of requiring passes for inter-sector travel, and a further tightening of customs and currency controls in general. While such measures would be directed primarily toward control of Germans, they could also disturb Berlin's communications, both internally and with the Federal Republic, and thus lower the prestige of the Western powers in Berlin by



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making apparent their inability to retaliate.

The ultimate decision on any important actions involving West Berlin and the enforcement of East German sovereignty rests with the Russians. There are, however, many opportunities for East German leaders to

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demonstrate greater autonomy as they attempt to compel the West to negotiate with the East Germans many matters which are now handled by the Russians.

Russian Deputy Foreign Minister Zorin reportedly arrived in East Berlin on 18 November to discuss visa sovereignty for East Germany. The East Germans hope to gain from these talks the broad control powers over all Western traffic in the GDR now exercised by the Russians. The Soviet officials would continue to control trips of diplomatic and military personnel of the Western powers between West Germany and West Berlin.

East Germany's desire to profit from the interzonal

trade agreement signed last week, however, may temper the degree of interference with West Berlin's communications lines, since the Federal Republic could retaliate by halting delivery of promised goods. While the Federal Republic has strong economic retaliatory capabilities, it has in the past shown reluctance to impose them, fearing they would bring increased hardship for the East German people and widen the gulf between Germans in the two parts of the divided country. West German reluctance to exercise any economic retaliation against the GDR probably stems from the fact that the East Germans could also counter with economic sanctions.

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EAST GERMANS PRESS HARBOR AND CANAL PROGRAM

The program to enlarge East German harbors has been given renewed impetus by Party Secretary Ulbricht's recent announcement that the development of the port of Rostock into the largest East German shipping center is one of the main tasks of the remaining three years of the Five-Year Plan (1956-60). This harbor program, along with scheduled canal construction, indicates that the Communists plan to divert satellite shipping from the West German port of Hamburg. The program will reduce East Germany's vulnerability to West German retaliation against harassment as well as provide strategic and logistic advantages to East Germany.

The East German Council of Ministers is reported to

have decided to increase the transshipment capacities of all East German ocean ports from the present 3-4,000,000 tons per year to about 7,500,000 tons by 1960. This expansion is to be effected by deepening and extending the sea approaches to the harbors and building modern loading installations, warehouses, and additional railway facilities to connect the ports with the existing rail networks.

Rostock harbor is to be expanded to receive greater amounts of grain, ore, and general cargo. It is to accommodate 10,000-ton vessels by 1958. East Germany is now producing these ships and will be adding them to its own merchant marine. The water approaches to Rostock are to be

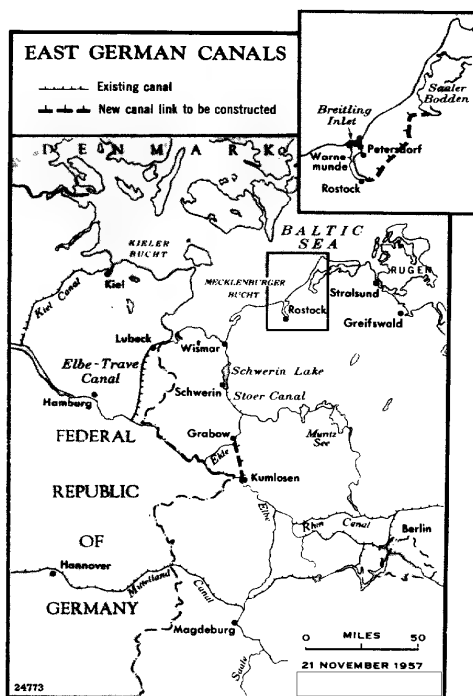
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improved, possibly by digging a canal from the Breitling Inlet to the Baltic Sea. A canal is also to be dug from Rostock to the Saaler Bodden so that shipping can proceed inland from Rostock to Stralsund and perhaps from there to the Oder by inland waters.

At Petersdorf, a dock area is being developed which



will ultimately have a total annual transloading capacity of 1,500,000 tons. The harbor of Warnemuende is also to be expanded.

Wismar, the largest East German port at present, has been expanded and has handled a sharp increase in westbound shipping during the past year. The construction of oil storage tanks and pipelines has enabled Wismar to handle increasing petroleum shipments from the Soviet Union for the Soviet

forces in East Germany and for East German industry.

Stralsund, a smaller harbor than Rostock or Wismar, is to be expanded to accommodate ships of 3,000 tons and is to receive the bulk of the Baltic traffic.

A canal, a major factor in East Germany's plans to avoid shipping through West Germany, is to extend from Kumlosen on the Elbe to Grabow, completing the water link between Wismar and the Elbe. Construction on this canal began in May 1956.

Political and strategic considerations outweigh the purely economic advantages of this program, although Ulbricht stated that the reason for enlarging Rostock harbor was to save "large sums in foreign currency otherwise spent by having to use foreign ports." Nevertheless it will take many years of operation to pay for the cost of construction. Expenditures for construction of the Kumlosen-Grabow canal alone were estimated at about 4 percent of the total planned cost of construction during the Second Five-Year Plan. By using petroleum storage and transloading facilities which have been installed at Wismar, the Baltic Sea route can be used as a petroleum supply line, reducing dependence on Polish rail facilities for shipments of petroleum to East Germany.

The construction of a waterway from Kumlosen to Grabow which will duplicate the West German Elbe-Trave canal, and will permit the bypassing of Hamburg, is a further indication that East Germany and the Soviet Union do not envisage an early reunification of Germany.

(Prepared by
ORR)

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THE POSITION OF THE POLISH REGIME

Polish Minister of Education Wladyslaw Bienkowski, a "liberal" Communist and confidant of party leader Gomulka, in commenting recently on Gomulka's policies made it clear that Gomulka had thrown his full support behind Khrushchev and remained distrustful of the West. In internal policies, Gomulka, apparently in his intense desire to reassert the authority of the party, is turning to a somewhat harder line insofar as the church, freedom of expression, and party discipline are concerned. Bienkowski says Gomulka's support of the Soviet party leader stems from his belief that Khrushchev is more liberal than other possible Soviet leaders.

Gomulka fears that loans which Poland needs from the West will come only with "strings attached." Bienkowski observed that the Czech loan for development of Polish mining industries had been insufficient. He went to London in an attempt to get additional funds for the mines and to determine the possibilities for increasing trade with Commonwealth countries, particularly Australia and New Zealand.

Unemployment and strikes are increasing in Poland, and the population is becoming restless over the regime's failure to improve the economic situation. The party has no following among the peasants, and the workers are hesitant to take an active role in the workers' councils, which the regime has been encouraging, particularly since Gomulka's visit to Belgrade in September.

Gomulka considers the church to be the most serious threat to the regime's power,

believing it would not help the Communists in any real emergency, and he will grant no further concessions to the Catholics, who have been negotiating with the regime through Bienkowski.

The party purge called for at the party's tenth plenum will be directed first against the liberal revisionists and second against the Stalinists. Gomulka's advisers--including Bienkowski--are quite concerned that elimination of all the elements attacked at the plenum would leave too limited a reservoir of capable and qualified personnel for party and government offices.

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Suppression of the liberal student journal Po Prostu was only the first of a series of measures to be taken against the expression of revisionist ideas, according to Bienkowski, and was prompted by Moscow. A similar magazine, Nowa Kultura, will be the next to be "purged," and the youth newspaper Sztandar Mlodych will be slowly infiltrated. He also stated, however, that copies of articles banned as too liberal are freely circulated in Poland and that Natolin leaflets have reappeared since the banning of Po Prostu. The party has already lost ten prominent journalists who resigned over the proscription of a new magazine devoted to Poland's cultural ties with the West.

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THE COMMUNIST OPPORTUNITY IN GUATEMALA

Political instability in Guatemala is likely to continue for some time, and there are mounting indications that a military coup may be imminent. The Communists are likely to win a significant victory if present political trends continue through the 19 January national elections.

Army officers, most of whom oppose the extremes of right and left, are becoming increasingly alarmed at the evident inability of the divided center forces to agree on a single candidate to oppose both rightist Miguel Ydigoras Fuentes and the probable candidate of the Communist-infiltrated Revolutionary party (PR), Mario Mendez Montenegro, in the presidential race. Army leaders themselves are divided between two leading contenders: Lt. Col. Jose Luis Cruz Salazar, the young and ambitious ambassador to Washington, and Colonel Enrique Peralta, a 49-year-old officer who has spent the last 12 years at various posts abroad.

Neither Cruz nor Peralta is widely known to the public and neither could win the required absolute majority of votes against both Ydigoras and the Revolutionary party without fraud or government favoritism. Such fraud or favoritism would probably spark renewed popular disorders such as those which led to the annulment of the 20 October elections.

The government of Interim President Guillermo Flores Avendano, though basically anti-Communist, is more liberal toward leftist activity than its predecessor. Many adherents of the former leftist Arevalo and pro-Communist Arbenz regimes who support the PR have returned from exile or plan to return soon.

The PR, which is influenced by Communists entrenched in its lower echelons, is the country's strongest single party. Its chief source of strength comes from its embodiment of the still widely popular democratic nationalist, socialist objectives of the 1944 revolution which ousted the 13-year Ubico dictatorship. 25X1

If denied the right to participate in the coming elections, it is capable of causing serious disturbances.

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NEW CRISIS IN HONDURAS

A new crisis of serious proportions is developing in Honduras, just as the country seemed about to return to constitutional government for the

first time in three years. Colonel Oswaldo Lopez, the ambitious and venal defense minister who became a member of the governing military junta on 17 November,

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is making an all-out bid for a constitutional provision that would give the armed forces dominant power. Lopez himself obviously wants the proposed new post of armed forces chief, whose powers are so defined as to make its incumbent in effect more powerful than the President.

The able and moderate Roberto Galvez, whose resignation from the junta on 17 November was motivated by Lopez' maneuvering, believes Lopez would create a "monster" of the armed forces. The foreign minister has also resigned and other cabinet ministers may follow suit.

By qualifiedly "accepting" the constituent assembly's election on 15 November of the popular Liberal leader, Dr. Ramon Villeda Morales, as constitutional president, Lopez clearly hoped to put the liberal-dominated assembly in his debt. Without armed forces support, Villeda cannot expect to be in-



LOPEZ

augurated president before the end of January as planned.



VILLEDA

If denied Liberal support, Lopez may align himself with Villeda's uncompromising opponents in the minority Nationalist and Reformist parties, who apparently prefer continued army rule to Villeda's inauguration as constitutional president.

The Liberals who won wide popular endorsement in the unprecedentedly free constituent assembly election on 22 September, attempted without success to reach an agreement for minority party participation in their government. Villeda even bucked strong opposition in his own party to offer the Nationalists three cabinet posts. The Nationalist chief, the aged ex-dictator Tiburcio Carias, however, flatly refused any agreement that would recognize Villeda's right to the presidency. Carias' attitude suggests either that he believes the armed forces will prevent Villeda's inauguration or, possibly, that Carias is planning a revolution.

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CONTINUING TENSION IN CUBA

An intensified campaign of terrorism and sabotage is being directed against the regime of Cuban President Fulgencio Batista, and the principal political opposition groups are trying to form a coalition against him. Batista is tightening his grip over the armed forces, and his control of the situation does not seem to be in danger at this time.

A campaign of burning sugar-cane fields, launched by the followers of rebel leader Fidel Castro in Oriente Province, is expected to fall short of its announced goal of undermining Cuba's sugar-dependent economy. The rebels would have to enlist the active support of field workers and mill owners to destroy enough of the anticipated record crop to affect the economy; self-interest probably will prevent collaboration by members of the sugar industry. A general strike which the rebels hope to call when the sugar harvest begins late in December is likely to be relatively ineffective for the same reason. However, revolutionary elements have also threatened a new campaign of assassinations, and this appears to be potentially the most serious threat to the regime.

Representatives of Cuba's main opposition groups meeting in Miami during last October and early November formed a "Council of Cuban Liberation" to depose Batista. This "council" so far has appeared more determined than past opposition

movements--it has gone as far as to designate a "provisional government"--but there is little reason to believe that factionalism among these groups can be overcome. For example, they have so far failed to achieve electoral unity in preparation for the 1958 presidential campaign. The opposition is also handicapped by the absence from Cuba of many of its leaders, who have recently been forced to seek political asylum abroad.

Popular discontent arising from the government's harsh repressive measures and its repeated suspension of constitutional guarantees has encouraged the growth of the Civic Resistance Movement, which is composed of respected business and civic leaders and supports Fidel Castro's rebels.

Batista, meanwhile, benefits from control of a well-organized political machine and the country's military forces. The armed forces were purged of dissident elements following the 5 September naval revolt at Cienfuegos, and the government is proposing the unification of all the armed forces under a central five-member junta to be headed by a "general in chief," who probably will be completely subservient to Batista. This new establishment will probably be the vehicle through which Batista will attempt to retain effective control of the country after the expiration of his presidential term in February 1959.

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PART III**PATTERNS AND PERSPECTIVES****THE IMPACT ON SOUTHEAST ASIA OF THE COALITION GOVERNMENT IN LAOS**

The establishment on 19 November of a coalition government in Laos including the Communist-dominated Pathet Lao will have serious repercussions far beyond the Laotian borders. Specifically, it will arouse the apprehensions of those South-east Asian nations most closely identified with the West--Thailand and South Vietnam--and increase internal pressures for the adoption of policies of neutrality. Throughout South-east Asia, moreover, the Laotian coalition will contribute to raising the prestige of the Communist movement.

Psychological and Political

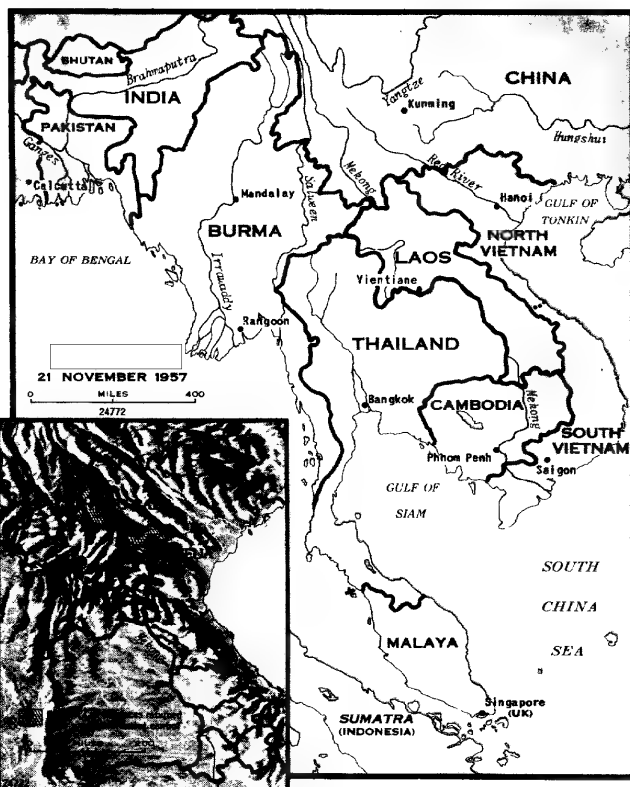
The impact of the Laotian settlement for the region will,

in fact, be twofold. The most immediate will be psychological, followed by long-term political repercussions. The psychological impact will stem from recognition that the Communists will have made a notable advance in terms of operational freedom and of respectability. For the first time since World War II, a Communist-dominated party not only has emerged from insurgency as a legal political party but has been incorporated into the national government. As a result, all other Southeast Asian governments facing Communist-dominated insurgents will find it more difficult to insist on unconditional surrender.

The Communists will also have increased their direct access to the border regions of Burma and South Vietnam. Although geographically remote, economically backward, and possessing negligible military forces, Laos has nevertheless served as an important territorial buffer between Communist China and North Vietnam and the various countries of Southeast Asia. Any shift by Laos toward the Communist bloc will provide the Communists excellent opportunities to increase their political and psychological pressure on these countries, particularly Thailand, South Vietnam, and Cambodia.

Thailand

Although South Vietnam is likely to feel the strongest reaction to the settlement in Laos, Thailand in the long run will

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find the pressures most severe. If the Pathet Lao successfully operates within the parliamentary framework and if Laos broadens its diplomatic relations with and receives large-scale economic aid from the Sino-Soviet bloc, the neutralist appeals of the Laotian program will be very difficult for the Thais to combat.

All along the Mekong River boundary between the two countries the predominant population group is Thai-Laotian, with linguistic and historic bonds linking it more closely with the Laotian government than with Bangkok. Moreover, the northeast plateau of Thailand, traditionally the more economically depressed portion of the country, would provide especially fertile ground for Communist propaganda through the Pathet Lao. The border area even today is to some extent competing ground for the propaganda agents of the Thais, the Laotians, and the Viet Minh.

Thai sensitivity to developments in Laos was indicated even before the settlement with the Pathets was reached. In October, Acting Foreign Minister Visutr called for the abolition of the 15-mile demilitarized zone along the Thai-Laotian border and an adjustment of the border itself to give Thailand control of islands in the Mekong. He declared that the entry of the Pathet Lao into the Vientiane government would set the stage for a Czech-type coup and the spread of Communist control over Laos. While these views were later disavowed by Prime Minister Pote Sarasin, they probably constitute a considerable body of opinion in Thailand.

South Vietnam

In South Vietnam, President Diem's views coincide with those of the former Indian commissioner of the International Con-

trol Commission--that the inclusion of the Pathet Lao in the Laotian government will isolate South Vietnam. Diem's international position will be made more difficult because the Laotian settlement will leave South Vietnam the only Indochinese government which has failed to carry out the political terms of the Geneva agreements for the settlement of the French Indochinese problem.

Moreover, South Vietnam's security problems will be intensified. The mountain range along the border between Laos and Vietnam has long served as a communications route for Viet Minh agents operating in and out of South Vietnam, and the legalization of the Pathet Lao would facilitate the travel of Communist agents from the North. This threat to South Vietnam is emphasized by Diem's assignment of top priority to the rapid political, economic, and military build-up of the remote high plateau region bordering on Laos and North Vietnam.

Burma and Others

The direct impact on Burma of the Laotian settlement will be almost entirely psychological. The border area between Burma and Laos is rugged and inaccessible, and effective control by either government is almost nonexistent. In fact, the area currently appears to be the last stronghold of the fading Kuomintang forces under pressure from the Burmese army. Psychologically, however, the formation of the coalition in Laos will augment the pressure on the Burmese government to negotiate a settlement granting the Burma Communist party legal status as a means of restoring law and order in the country.

In the offshore countries of the Philippines and Indonesia, the impact of the Laotian settlement will be considerably less than on Laos' immediate neighbors.

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The Huk movement in the Philippines is quite thoroughly under control, but the Communist party in Indonesia is already operating legally with a strong influence in the government. However, the settlement in Laos, especially if the Pathet Lao is capable of operating successfully within the parliamentary

system, will bring increased respectability to Communist parties throughout South and Southeast Asia--even those as far removed from Laos as Malaya, India, and Ceylon--and will constitute a major breakthrough for the Communists in the area.

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ECONOMIC CONDITIONS IN SYRIA

Syria's economy is relatively stable by Middle Eastern standards, despite some weaknesses resulting from last year's Suez crisis and continuing heavy defense expenditures. Although the Central Bank's holdings of foreign exchange reserves were somewhat lower at the end of June than they were a year ago, recent successes in marketing this year's bumper cotton, wheat, and barley crops--Syria's major exports and mainstay of its agricultural economy--seem to assure a record season. The Syrian pound, weakened slightly on the Beirut free money market following the Sinai invasion, has since remained relatively stable at only 3 percent below the pre-crisis high.

Agricultural Outlook

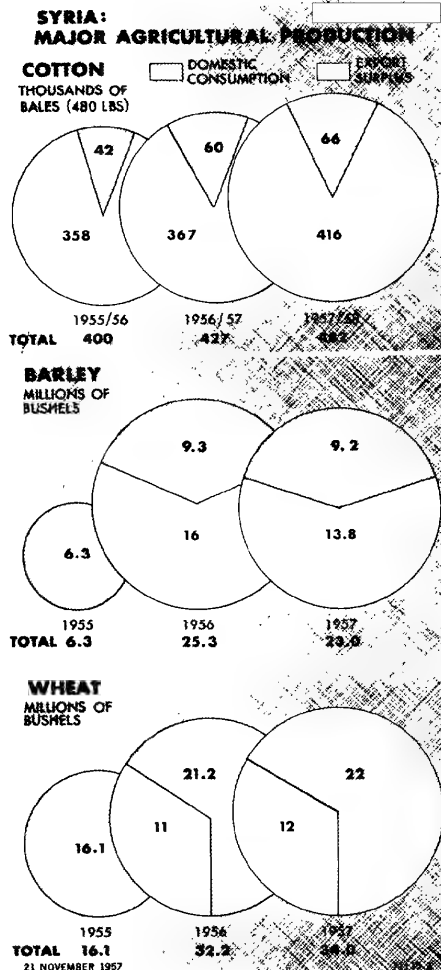
Over 70 percent of Syria's 4,000,000 inhabitants are directly dependent on agriculture; the fortunes of the remaining 30 percent are indirectly tied to agricultural production. Most of the country's industry is based on agricultural raw materials. Exports of agricultural products--cotton, wheat, and barley, in particular--account for 75 to 80 percent of total foreign exchange earnings.

Despite military expenditures of at least \$50,000,000 last year--about half of total ordinary budget expenditures--and market dislocations caused by the Suez crisis, the country by 31 December had increased its foreign exchange holdings to an all-time high of about \$80,000,000, largely in gold and dollars. The increase came primarily from exports and oil pipeline revenues. Foreign exchange holdings were running about 17 percent lower as of the end of June 1957 but were still about 100 percent higher than for the same period in 1955. The present export sea-

son began slowly, but recent deals with the Sino-Soviet bloc and with Western nations seem to assure that most of this year's record crop will be sold. If so, foreign exchange earnings may surpass the 1956 high.

Development Plans

Unlike many other underdeveloped countries, Syria does not have a substantial foreign debt and has managed to finance a modest economic development program through its own resources. Its only major debt is the \$90,000,000 Soviet bloc



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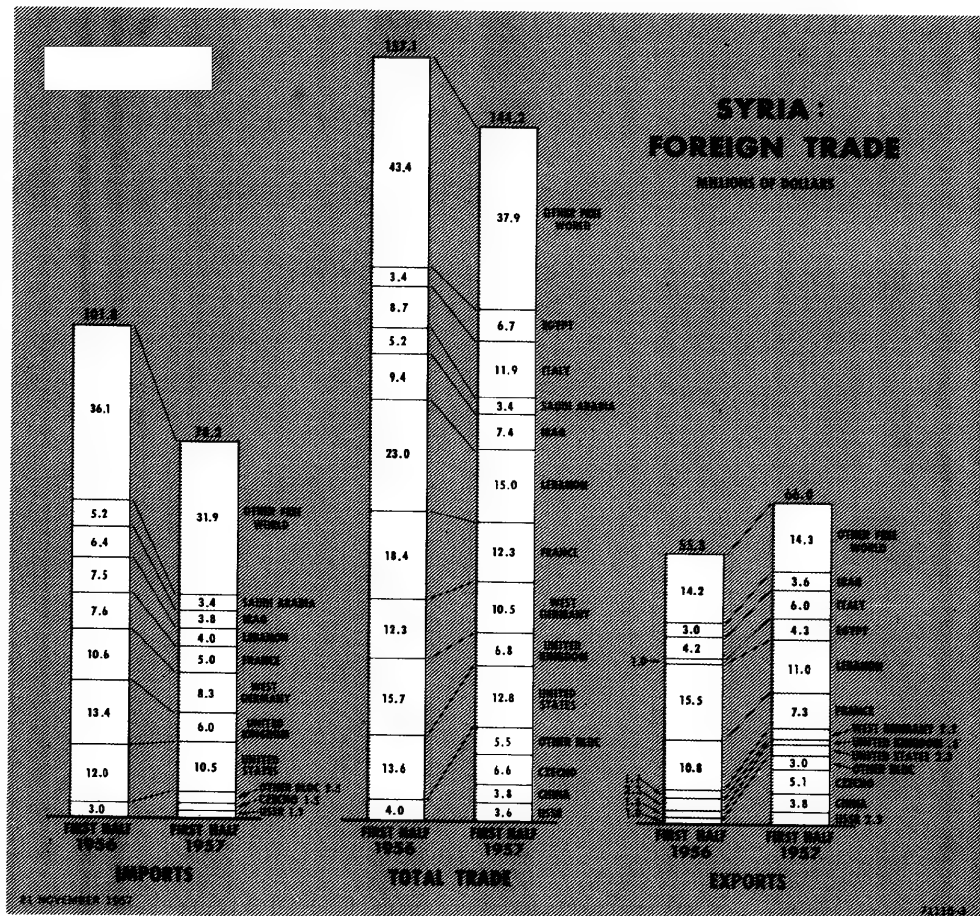
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arms credit. From 1945 to 1955, the Syrian government spent about \$120,000,000 for development schemes, all of which were financed either by tax receipts or borrowings from the Central Bank. The current development plan calls for an expenditure of about \$191,620,000 during the period 1955-1961. About \$50,000,000 worth of projects were to have been financed by public borrowing and by the International Bank for Reconstruction and Development (IBRD), and the rest by tax receipts. However, negotiations with the IBRD broke off in the summer of 1956 because of the Suez crisis, and many of the projects which were to have been financed from

this source are now included in the \$168,000,000 Soviet-Syrian economic aid agreement.

Some Dislocations

The dark spot in the Syrian economic picture is industry, largely textile, which suffered widespread shutdowns this summer caused in part by the Asian flu and part by the constriction of Syria's markets in Saudi Arabia, Jordan, and Lebanon. Syria's generally pro-Western business community attributes this decline to the economic policies of the present Soviet bloc-oriented government and fears that its influence will be further diminished if trade with the

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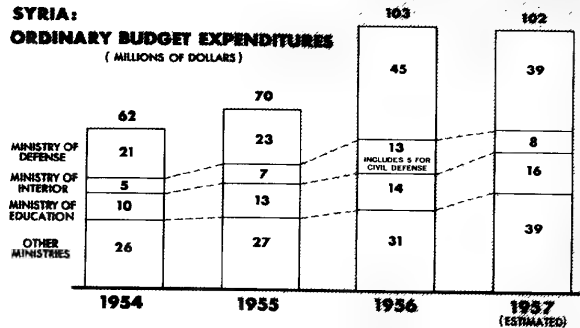
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bloc increases. It is also feeling the pinch of the government's anti-inflationary policies.

reserves, imports have been curtailed sharply and import duties increased substantially. At the same time, there has

been a successful drive to step up exports. For the first six months of 1957, exports increased by about 20 percent over the same period in 1956, and imports declined by about 23 percent. If this trend continues through December, which appears likely, Syria will experience a record export year. However, a poor crop at any time in the future would strain Syria's economy in

SYRIA:
ORDINARY BUDGET EXPENDITURES
(MILLIONS OF DOLLARS)

Prospects

In an effort to assure a balanced budget and to protect the country's foreign exchange

view of its many obligations under the Soviet bloc arms and economic agreements. (Concurred in by ORR)

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ECONOMIC ADMINISTRATION REORGANIZED IN EUROPEAN SATELLITES

Like the USSR, the East European satellites are reorganizing their economic administration to stimulate production and reduce costs. The general trend is toward reduction of central bureaucracy and delegation of operating responsibilities to lower levels of the economy. Ultimate central control is assured through retention of over-all planning responsibility in the central government. The reforms differ from those in the USSR in that a functional rather than a regional organization is retained. Significant increases in productivity will require more

extensive economic reorganization than is presently planned.

Czechoslovakia

The national conference of the Czechoslovak Communist party in June 1956 adopted a program of economic reform. This provided for simplification of planning, abolition of several ministries to be accompanied by a reduction in the central administrative apparatus, increased authority for enterprise managers, and enhancement of the economic role of the Slovak national council and the national

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committees--the local organs of government--at regional, district, and municipal levels. Little progress was made, however, in carrying out the reforms, and in September, Premier Siroky reiterated the necessity for increasing the effectiveness of management. He said that a new organization of industry would be discussed at a meeting of the central committee in January 1958 and that "a new method of planning and financing" would be used in drawing up the plan for 1959.

Planning is to be extended to cover a 10- to 15-year period "in order to stabilize the five-year plans." Detailed operative decisions and specific planning tasks are to be relegated to lower levels "so that the work of drawing up plans--particularly annual plans--becomes a permanent part of the work of each enterprise."

Under the new system, industry, according to Siroky, is to be reorganized by setting up combines capable of independently solving problems of technical development, increased production, supply, and marketing. Some enterprises will be merged and, where production is divided among several enterprises, industrial associations will be formed. Certain activities of the central ministries will be curtailed or abolished.

East Germany

The reorganization in East Germany is to be oriented primarily toward changes in administration of the industrial sector of the economy and bears a similarity to the proposed Czechoslovak reorganization in that it delegates greater operating responsibility to enterprises, and provides for formation of industrial associations.

At the 33rd plenum of the central committee of the Social-

ist Unity (Communist) party (SED) in October, Party Secretary and First Deputy Premier Ulbricht proposed that most of the industrial ministries be dissolved, their planning tasks transferred to the State Planning Commission, and their operating responsibility transferred to industrial associations (VVB's) or to district economic councils. The planning commission would also assume the policy-making and coordinating functions previously discharged by the superministerial economic council.

Unlike the Soviet reorganization, which placed economic administration on a regional basis, the VVB's are to be functionally organized, comprising industries of national importance. They would be composed of enterprises engaged either in similar or successive stages of production or both. Corresponding departments in the planning commission would draft both long-term and current plans and assign production tasks to the VVB's.

Economic councils--actually entities of the planning commission--are to be set up in each district to direct the management of local industry. Ulbricht has stated that the VVB's and the district economic councils would be responsible for implementation of investment programs and procurement of materials on the basis of quotas laid down by the State Planning Commission.

Rumania

The need for a complete reform of the highly centralized administrative system in Rumania has long been stressed by Rumanian Communist leaders, and events in Hungary provided a stimulus for action. In January 1957, it was announced that "above-plan" profits of local enterprises would be placed at the disposal of the

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people's councils for development of communal enterprises and services. By this means, it was hoped that former long delays in securing ministerial approval for local projects would be overcome.

In March, the number of ministries was reduced from 25 to 16, and local governmental responsibilities were extended. Some 50,000 to 60,000 administrative personnel are reported to have been removed from the central government apparatus as a result. Local people's councils were accorded responsibility for management of local industries. When compulsory delivery quotas were abolished for most agricultural products on 1 January, the councils also took over the supervision of local procurement of agricultural commodities for the state.

There is some doubt that administrative reform has effected the savings which the regime hoped for. Budgetary allocations for state administration in 1957 are actually higher than in 1956, indicating that even though bureaucracy is cut at the top it will probably expand at lower levels with an increase in authority.

Bulgaria and Albania

Administrative reforms in Bulgaria have extended principally to a ministerial reorganization and a strengthening of local people's councils. A decree in February 1957 merged ten ministries into five and called for a 30-percent reduction of staffs within three years. The number of state employees had already been reduced 20 percent in 1956. Anton Yugov, chairman of the Bulgarian Council of Ministers, declared on 1 February 1957 before the National Assembly that unnecessary centralization "must be eliminated," but this "does not mean in the least that we are deviating from Lenin's principle of democratic centralism."

In July 1957, a decentralization decree expanded the rights of the local people's councils. Responsibilities transferred to the councils included distribution of some local raw materials, such as scrap, and management of retail enterprises, machine-tractor stations, and other functions of local significance. The people's councils were authorized to work out their own budgets and were allowed to retain a greater share of local revenues. Ministries and departments must now coordinate measures and plans affecting local situations with the local councils concerned.

Even in Albania the problem of increasing the competence of local administrative apparatus, i.e., the people's councils and various commissions under their jurisdiction, to avoid too much centralization has been aired in official publications. Bureaucracy and lack of trained personnel have been deplored as having a detrimental effect on the economy, but there has been no reorganization of government such as has occurred in the other satellites.

Hungary

After the national uprising, the Kadar regime in late December 1956 began functioning on a provisional basis with a number of ministries merged and a large number of offices reorganized or abolished. About 30,000 employees were scheduled to be dismissed in the course of a gradual reorganization. While the sweeping character of this reorganization was largely due to the revolution, an unwieldy bureaucracy had long plagued the country, and some reduction in personnel was already under way.

Decentralization of responsibilities, nevertheless, has proceeded more slowly in Hungary than in some other satellites.

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because of the tight control which the Kadar regime finds necessary to maintain and the presence of Soviet "advisers" who must be consulted before important policy decisions are made. But there is some evidence of delegation of new responsibility at the local level. Deputy Premier Apro announced on 29 September that bills would soon be presented to the National Assembly to increase the administrative and economic scope of local councils. These councils, he stated, are to manage some important enterprises still run by the ministries.

Workers' councils, first set up during the revolution to provide increased participation by workers in management, have been abolished. Present policy calls for promotion of factory councils under control of the regime-dominated trade unions.

Poland

In October 1956, a new advisory economic council was

created to work out principles for "a new economic model" which would incorporate changes designed to achieve greater efficiency in the Polish economy. Important ministerial mergers took place in February 1957. A considerable delegation of authority for short-term planning and operational decisions has been given to the producing levels, although the central government continues to handle over-all national economic planning.

Provincial and local people's councils have an enlarged role in management of small-scale local industry. Workers' councils resembling those in Yugoslavia have been created in about 70 percent of the country's factories, but insufficient time has elapsed to judge to what extent they may ultimately be successful in influencing managerial decisions.

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